



# Leveraging Federal Funds

## Department of Energy PACE Webinar

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January 15, 2010



# About PACE

## **PACE – Property Assessed Clean Energy**

- Uses municipal taxation authority to establish “special tax” clean energy financing districts
- Participating properties opt-into the district, consenting to a lien that is used to secure financing
- Properties pay debt service as part of property tax bill

**Generally Enabled By State Legislation, PACE Has Now Been Authorized in Over 16 States**

**PACE Was Recently Endorsed By the White House in the Announcement of its Recovery Through Retrofit Plan**



# Nature of PACE Financing

## Access the Capital Markets Through a Bond Issuance

- ▣ General Obligation vs. Revenue Bonds
- ▣ Private Placement vs. Public Issuance

## Other Sources of Funding

- ▣ Bank Loan
- ▣ Municipal “Self-Financing”



# PACE Goal: Affordability

The Terms Underlying the Financing Structure Are Critical in Interest Rate Setting

Creative Ways to Incorporate DOE Funds for Credit Enhancement:

1. Loan Guarantee
2. Establishment/Supplementation of Reserve Fund
3. Surplus Fund



# Loan Guarantees

**Definition:** Loan guarantees represent an external source of capital used to “back” an obligation

**Example:** Municipality A pledges DOE grant funding in support of its PACE program. While the property owner has primary repayment obligation, the loan guarantee will be triggered in event of default.



# Establishment of Reserve Fund

**Definition:** A reserve fund is a dedicated source of capital that smoothes serves as a secondary source of debt service payment in the event of delinquency. The reserve fund supports smooth payments to the investor, lowering the risk & rate on the bonds.

**Example:** Instead of charging property owners a percentage of financed amount to establish a reserve fund, Municipality A uses DOE grant funds to establish the debt service reserve fund.



# Surplus Fund

**Definition:** A surplus fund works in conjunction with a debt service reserve fund to smooth the investor payment stream. A surplus fund, however, is often established outside of the bond indenture and thus is more flexible

**Example:** Municipality A establishes a surplus fund from DOE grant monies and uses the funds to guarantee a subordinate bond. Subordinate bonds, in themselves, provide credit enhancement to senior bonds. This allows the senior bonds to be rated higher leading to lower rates. A partial guarantee on the subordinate bonds would increase investor attractiveness.



# Other Leveraging Strategies

**DOE stimulus funds can be used in other ways to increase the affordability of PACE programs:**

- **Energy audits/surveys**
- **Closing costs**
- **Eligible project funding (Weatherization Assistance; proposed Home Star program)**





# About Renewable Funding

## **Pioneered PACE financing in BerkeleyFIRST**

- Knowledgeable staff with experience in capital markets & securitization

## **Leading national firm with PACE design, administration, and financing**

- Team Lead in the California Statewide Communities' \$250M financing effort, the first statewide PACE program
- Discussions with bond rating agencies

## **Established partnerships with major financial institutions enabling flexible financing structures**

- Designed micro-bond

